

RD AN No. 4121 (1980-D)  
November 5, 2005

TO: State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors,  
Guaranteed Rural Housing Specialists and Coordinators,  
State Appraisers, State Contracting Officers, and  
Program Support Staff

FROM: Russell T. Davis   *(Signed by Russell T. Davis)*  
Administrator  
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program  
(SFHGLP)

- Liquidation Value Appraisals
- Definition of Value Type and Procedure

**PURPOSE/INTENDED OUTCOME:**

The purpose of the Administrative Notice (AN) is to provide guidance on the definition of a *liquidation value* type appraisal and outline the steps taken in obtaining a report from a State Certified or Residential Appraiser in conjunction with Real Estate Owned (REO) guaranteed under the SFHGLP. The intended outcome of this AN is to establish a consistent understanding nationwide of the terminology utilized with this value type, and outline general acceptable appraisal procedures for developing and reporting an appraisal for liquidation value.

**COMPARISON WITH PREVIOUS AN:**

There is no previous AN on this subject.

EXPIRATION DATE:  
November 30, 2006

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

## **BACKGROUND:**

The National Office has received inquiries from lenders, field staff and appraisers questioning the definition of a liquidation value appraisal when determining value of unsold REO for the SFHGLP.

RD Instruction 1980-D, Section 1980.376(a)(1)(ii), in part, states that when a lender acquires the property in liquidation and no sale offer is accepted within the 6-month marketing period following acquisition, then the Agency will obtain and use a liquidation value appraisal of the property. The value established will then be utilized to base a loss claim payment by applying a cost factor established by the Department of Veterans Affairs (VA), which estimates REO expenses. The most current cost factor may be found at RD Instruction, 1980-D, Exhibit D.

For a claim calculation on unsold REO, a third party liquidation value appraisal obtained by the Agency is utilized, as it takes into consideration the market pressures on a distressed property.

This AN provides direction on the current terminology utilized regarding the definition of liquidation value appraisal and the general procedures to be followed when requesting this type of report.

## **IMPLEMENTATION RESPONSIBILITIES:**

There are many types of appraised value. There is multiple value types listed and defined in the Appraisal Institute's 4<sup>th</sup> Edition of The Dictionary of Real Estate Appraisal, available online for purchase at the Appraisal Institute's website at: <http://www.appraisalinstitute.org/ecom/publications>. Most appraisers and users of Agency appraisals understand the definition of market value, but the definition of liquidation value is less understood.

Liquidation value is defined as follows:

*“Liquidation value: the most probable price that a specified interest in real property is likely to bring under all of the following conditions:*

- 1. Consummation of a sale will occur within a severely limited future marketing period specified by the client.*
- 2. The actual market conditions currently prevailing are those to which the appraised property interest is subject.*
- 3. The buyer is acting prudently and knowledgeably.*
- 4. The seller is under extreme compulsion to sell.*
- 5. The buyer is typically motivated.*
- 6. The buyer is acting in what he or she considers his or her best interest.*
- 7. A limited marketing effort and time will be allowed for the completion of a sale.*
- 8. Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.*

9. *The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

This definition clearly differs from that of market value due to the *motivation of the seller* and the *limited marketing period factors*.

An appraisal report must be prepared by a State Certified or Residential Appraiser and comply with the Uniform Standards of Professional Appraisal Practice (USPAP). The first step in the appraisal process is to establish the purpose and intended use of the appraisal. The following are items that should be identified in an appraisal order process when ordering a liquidation value appraisal:

- When the appraisal assignment is to determine liquidation value, the Agency's Statement of Work (SOW) should clearly identify the value type to be reported in the appraisal order. It is suggested that the definition as stated above be incorporated into each State or Centralized Servicing Center's (CSC) SOW.
- Additionally, the severely abbreviated future marketing period should be identified in the SOW, at the discretion of each State and CSC. Because there are many markets nationwide and many markets within individual States, a universal marketing frame on a liquidation value cannot be established collectively. The value should be determined as if the property would be sold immediately without the market exposure it would ordinarily receive in a normal transaction. Each State is charged with the responsibility of determining, within each of their markets, the abbreviated time frame to incorporate into their SOW when ordering liquidation value appraisals.
- The appraisal should be developed with "as is" value.
- The type of written appraisal report should be identified for the vendor. Appraisal reports should be the most recent March 2005 revision of one of the following:
  - Uniform Residential Appraisal Report (Fannie Mae Form 1004 or Freddie Mac Form 70)
  - Manufactured Home Appraisal Report (Fannie Mae Form 1004C or Freddie Mac Form 70-B)
  - Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 or Freddie Mac Form 465)
- The appraisal order should summarize the appraisal assignment information and confirm the appraisal fee, payment method, responsible party for payment, verify method of delivery and confirm any special instructions, as discussed with the appraiser.
- *Prior to ordering a liquidation appraisal*, the RHS approval official responsible for determining the need for requesting a liquidation value appraisal, in accordance with Section 1980.376(a)(1)(ii) of RD Instruction 1980-D, will request a certification of funds from the Fiscal Control Branch (FCB) in the Office of the Deputy Chief Financial Officer in St. Louis, Missouri. The request should be sent to [fc2@stl.rural.usda.gov](mailto:fc2@stl.rural.usda.gov). FCB will reply by email within 24 hours certifying funds are available for the proposed appraisal order. Include in the request the borrower's name, case number, lender name, appraiser and amount of quoted appraisal fee. Questions on this portion of the process may be directed to FCB at (314) 457-4143.

- It is suggested that confirmation of the residential appraisal order be obtained from the vendor once an order is placed.

The appraisal should be ordered by Rural Development staff and paid for using Form RD1980-46, "Report of Liquidation Expense Transaction 4040." The program loan cost expense account is not utilized for payment of SFHGLP liquidation value appraisals.

- The entire cost of the appraisal is to be inserted into Block 8.
- In Block 13, "Remarks," insert the following:  
    *"Loss Claim Appraisal – Guaranteed Rural Housing Loan Program"*
- Forward the completed form and invoice requesting payment to:

USDA, Rural Development  
DCFO – FC-350/GLB  
PO Box 200011  
St. Louis, MO 63120-0011

It is important that the appraisal be obtained and the loss claim payment request be completed in a timely manner to prevent unnecessary payment of accrued interest. In addition, this loss settlement calculation can be completed immediately following the foreclosure sale or at any time during the 6-month resale period. If the lender then sells the property for an amount greater than the appraised amount used in calculating the loss, this recovery would be paid to the Government in accordance with RD Instruction 1980-D, Section 1980.377, "Future Recovery."

Questions pertaining to this AN can be directed to Debbie Terrell of the Single Family Housing Guaranteed Loan Division at (202) 720-0099 or (202) 255-7928 or by email at [debra.terrell@wdc.usda.gov](mailto:debra.terrell@wdc.usda.gov).